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TO AMEMBASSY LONDON

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FOR DEPUTY ASSISTANT SECRETARY JULIUS L. KATZ

FOLLOWING REPEAT RIO DE JANEIRO 3619 ACTION SECSTATE INFO
BRASILIA KINSHASA LIMA SANTIAGO SAO PAULO 6 NOV

QUOTE

LIMITED OFFICIAL USE RIO DE JANEIRO 3619

E.O. 11652: N/A

TAGS : EMIN ETRD BR CI PE

SUBJECT : COPPER

REFERENCE : (A) LIMA 7798

(B) SANTIAGO 6372

1. SUMMARY: BRAZIL'S DOMESTIC COPPER SITUATION IS NOT TOO PROMISING, WITH ONLY TWO PERCENT OF DOMESTIC PRIMARY COPPER NEEDS COMING FROM LOCAN CONCENTRATES. UNLIKE THE SITUATION IN PETROLEUM, FOREIGN MINING COMPANIES HAVE BEEN LOOKING HARD FOR COPPER FOR SOME YEARS BUT WITHOUT MUCH SUCCESS. EVEN IF EXPECTATIONS ARE MET FOR TWO PROJECTS ON WHICH FEASIBILITY STUDIES ARE BEING CARRIED OUT, SUBSTANTIAL AMOUNTS OF CONCENTRATES AND/OR COPPER METAL WILL STILL HAVE TO BE IMPORTED, UNLESS NEW ORE RESERVES ARE DISCOVERED. IN THE MEANTIME, THE
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GOB'S MOST LIKELY COURSE - AND POSSIBLY THE ONLY FEASIBLE ONE

FOR THE NEXT 10 YEARS OR SO - WILL BE TO CONTINUE TRYING TO NEGOTIATE LONG-TERM SUPPLY CONTRACTS FOR SMELTED COPPER AT THE BEST POSSIBLE TERMS. AT THE SAME TIME, IF DOMESTIC ORE RESERVES JUSTIFY THE CONSTRUCTION OF ONE OR MORE NEW SMELTERS, THE GOB CAN HOPE FOR, AT BEST, TO TRY TO ASSURE A STEADY SUPPLY OF ADDITIONAL CONCENTRATES NEEDED TO FEED THE SMELTERS. BRAZILIAN INVESTMENTS IN CHILE OR PERU FOR MINING CONCENTRATES MAY PROVE VERY DIFFICULT TO ACHIEVE, FOR BOTH FINANCIAL AND POLITICAL REASONS. END SUMMARY.

2. BRAZIL'S COPPER SITUATION CONTINUES TO BE ADVERSE. IN 1974 REFINED COPPER IMPORTS OF 140,000 METRIC TONS COST \$330 MILLION; THIS YEAR THE SAME QUANTITY IS EXPECTED TO BE IMPORTED, THOUGH AT A LOWER COST BECAUSE OF A DECLINE IN WORLD MARKET PRICES. PRIMARY PRODUCTION FROM THE LONE DOMESTIC SMELTER, WHICH USES LOCAL CONCENTRATES, WAS 3,500 TONS LAST YEAR AND WILL BE ABOUT THE SAME IN 1975 (SECONDARY PRODUCTION BY THE COUNTRY'S REFINERIES WAS AN ADDITIONAL 56,000 TONS IN 1974). GOB PLANNERS FORESEE DOMESTIC PRIMARY COPPER DEMAND OF 215,000 TONS BY 1980 AND BY 1983 400,000 TONS. ON THE OTHER HAND, THE PROSPECTS FOR INCREASED PRODUCTION FROM DOMESTIC ORE APPEAR LIMITED.

3. LAST NOVEMBER THE GOB ACQUIRED FROM A PRIVATE BRAZILIAN INDUSTRIALIST BRAZIL'S ONLY IMPORTANT MINE CURRENTLY IN OPERATION, THE SMELTER, AND THE ONLY SIGNIFICANT KNOWN AND UNEXPLOITED COPPER RESERVE (SEE RIO A-149 OF NOV 27, 1974 AND RIO 4394 OF NOV 25, 1974). THE MINE (CAMAQUA - LOCATED IN THE STATE OF RIO GRANDE DO SUL, THE SMELTER (ITAPEVA - LOCATED IN SAO PAULO) AND THE AS-YET UNTAPPED DEPOSIT (CARAIBA - LOCATED IN BAHIA) ARE NOW THE PROPERTY OF FIBASE, A SUBSIDIARY OF THE GOB'S NATIONAL DEVELOPMENT BANK (BNDE). FIBASE HAS COMMISSIONED FEASIBILITY STUDIES TO DETERMINE THE PRODUCTION POTENTIAL OF EACH DEPOSIT. THE FEASIBILITY STUDIES, WHICH ARE BEING CARRIED OUT BY DOCEGO, AN EXPLORATION SUBSIDIARY OF THE GIANT GOB-OWNED IRON ORE MINING COMPANY, COMPANHIA VALE DO RIO DOCE (CVRD), ARE TO BE COMPLETED BY MARCH 1976. FIBASE HAS HOPES (REPEAT HOPES) THAT COPPER METAL OUTPUT USING CAMAQUA CONCENTRATES CAN BE INCREASED FROM 3,000 TO 10,000 TPY AND THAT CARAIBA ORE WILL BE ABLE TO YIELD 40,000 TPY OF METAL. THE PROJECTED EXPENDITURE ON THE NEW MINING AND CONCENTRATION FACILITIES IS LIMITED OFFICIAL USE

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\$150 MILLION. GOB'S BEST CURRENT ESTIMATE OF RESERVES FOR CAMAQUA IS 12.5 MILLION TONS OF ORE CONTAINING 0.9 PERCENT COPPER (OR 112,000 TONS OF COPPER METAL, OF WHICH 81,000 TONS IS CONSIDERED RECOVERABLE); CARAPBA'S RESERVE ESTIMATE IS 54 MILLION TONS CONTAINING 1.46 PERCENT COPPER (EQUIVALENT TO 792,000 TONS, OF WHICH 634,000 IS CONSIDERED RECOVERABLE).

4. FIBASE ALSO IS PROJECTING, FOR ROUGH PLANNING PURPOSES,

A NEW 100,000-TON SMELTER TO BE BUILT AT ARATU, BAHIA, AND ANOTHER OF THE SAME SIZE AT A COASTAL LOCATION IN RIO GRANDE DO SUL, EACH TO COST \$200 MILLION. TOTAL REQUIRED CAPITAL INVESTMENT FOR NEW MINING AND SMELTING WOULD THEREFORE BE IN RANGE OF \$550 MILLION, WITH FACILITIES PROJECTED TO COME ON STREAM IN 1980.

5. BRAZIL THUS FORESEES REFINED COPPER METAL IMPORTS OF ABOUT 75,000 TONS IN 1980 AND DOMESTIC PRIMARY PRODUCTION OF 200,000 TONS, OF WHICH ONLY 50,000 TONS (RPNPPP FROM CARAIBA, 10,000 FROM CAMAQUA) WOULD COME FROM LOCAL CONCENTRATES AND THE REMAINING 150,000 TONS FROM IMPORTED CONCENTRATES.

6. THE GOB'S PERCEPTION OF THE FUTURE AVAILABILITY OF COPPER CONCENTRATES IS PERHAPS THE KEY FACTOR IN A POSSIBLE BRAZILIAN COPPER INVESTMENT IN CHILE. SOME OFFICIALS FEEL THAT SUFFICIENT CONCENTRATES WILL ALWAYS BE AVAILABLE ON THE WORLD MARKET AND THAT LONG-TERM SUPPLY CONTRACTS FOR CONCENTRATES HAVE A WAY OF DISSOLVING WHEN FLUCTUATING WORLD MARKET PRICES COME INTO PLAY. A FEW PRODUCERS, NOTABLY CHILE, APPARENTLY WOULD WELCOME A BRAZILIAN INVESTMENT IN MINING, WITH A PORTION OF THE CONCENTRATES TO BE EXPORTED TO BRAZIL FOR SMELTING. TO DATE, ONLY ONE BRAZILIAN GROUP, CONTROLLED BY ALVARO CATAO, A DOMESTIC COAL PRODUCER, HAS SHOWN SERIOUS INTEREST IN CHILE. EARLIER THIS YEAR CATAO, WITH HIS OWN RESOURCES, MADE A \$600,000 DOWN-PAYMENT FOR THE PURCHASE OF THE LOS PALAMBRES PROPERTY. CATAO INFORMED US THAT THE TOTAL PURCHASE PRICE IS \$35 MILLION AND THAT HE HAS A PERIOD OF THREE YEARS TO PRESENT A FEASIBILITY STUDY AND A FINANCIAL PACKAGE FOR DEVELOPING THE PROJECT. HOWEVER, BY THE END OF THIS YEAR HE MUST DEMONSTRATE THAT HE HAS THE TECHNICAL CAPABILITY AND POTENTIAL FINANCIAL RESOURCES NEEDED FOR PROJECT IMPLEMENTATION. (CATAO ESTIMATES CAPITAL REQUIREMENTS TO BE AT LEAST \$270 MILLION FOR A PROJECT THAT WILL LIMITED OFFICIAL USE

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PRODUCE ABOUT 300,000 TPY OF CONCENTRATES, EQUIVALENT TO ABOUT 100,000 TPY OF METAL.) TOWARD THIS END, CATAO IS TRYING TO FORM A MULTI-NATIONAL CONSORTIUM COMPOSED OF HIS GROUP WITH 51 PERCENT OF THE EQUITY, ALONG WITH KRUPP, INCO AND POSSIBLY FALCONBRIDGE AS MINORITY SHAREHOLDERS. KRUPP WOULD HOPE TO MANUFACTURE MUCH OF THE MINING AND BENEFICIATION EQUIPMENT IN ITS BRAZILIAN PLANTS AND THEREBY QUALIFY FOR ATTRACTIVE GOB EXPORT INCENTIVES; INCO AND FALCONBRIDGE MIGHT BE INTERESTED MAINLY BECAUSE THEY WOULD ASSOCIATE AS A MINORITY PARTNER IN A BRAZILIAN-CONTROLLED ENTERPRISE RATHER THAN INVEST DIRECTLY IN CHILE. BOTH CATAO AND FIBASE PRIVATELY STATE THAT THE GOB IS NOT INTERESTED IN EQUITY. GOB FINANCIAL BACKING OF CATAO'S INTEREST, HOWEVER, WOULD DEFINITELY BE NEEDED. WHILE CATAO IS HOPEFUL OF RECEIVING SUCH SUPPORT, IT MAY BE DIFFICULT, IF NOT IMPOSSIBLE, TO OBTAIN IN THE MIDST OF BRAZIL'S CURRENTLY

SERIOUS BALANCE OF PAYMENTS PROBLEM, COUPLED WITH THE WORLD-WIDE TIGHT CAPITAL MARKET. GENERAL GOLBERY DO COUTO E SILVA, CLOSE ADVISER TO PRESIDENT GEISEL, REPORTEDLY TOLD ONE RELIABLE MINERALS SOURCE THAT THE GOB WOULD NOT BE ABLE TO FINANCE BRAZILIAN COPPER PROJECTS IN CHILE.

7. ACCORDING TO THE LOCAL PRESS, FOREIGN MINISTER AZEREDO DA SILVEIRA IS TO TRAVEL TO LIMA ON NOVEMBER 6 TO SIGN AN AGREEMENT WITH PERU FOR THE SUPPLY OF SMELTED COPPER TO BRAZIL. HOWEVER, EXCEPT IN THE MINISTRY OF FOREIGN AFFAIRS, WE HAVE SO FAR BEEN UNABLE TO FIND ANY SERIOUS BRAZILIAN INTEREST -- PUBLIC OR PRIVATE -- FOR INVESTING IN PERU; AND, CONVERSELY, AGAIN WITH THE EXCEPTION OF THE MINISTRY OF FOREIGN AFFAIRS, WE HAVE NOT BEEN ABLE TO FIND KNOWLEDGEABLE BRAZILIANS WHO BELIEVE THAT EITHER PERU OR CHILE MIGHT INVEST IN A SMELTER PROJECT IN BRAZIL.

8. THIS MESSAGE HAS BEEN COORDINATED WITH EMBASSY BRASILIA WHICH IS MAKING FOLLOW-UP CONTACTS WITH ITS OWN SOURCES IN THE NATIONAL GOVERNMENT.
DEXTER UNQTE. KISSINGER

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